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SIPDIS

STATE FOR EB/IFD/OIA, WHA/BSC, AND WHA/EPSC

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SUBJECT: PL 108-7: Survey on Brazilian Fiscal Transparency and Accountability

Ref. State 100283

1. Reftel requests post's response to a survey on fiscal transparency and accountability in order to provide a report required by PL 108-7. Below is response for Brazil, keyed to questionnaire in paragraph 7 of reftel.

a. 3. The government publishes a budget with minimum delay.

b. Yes, the combined fiscal position of subnational governments is published. The Central Bank publishes monthly data on the combined surpluses/deficits of sub-federal governments with a three-week lag based on changes in public sector debt balances. More detailed information, based on cash flow reports by states and municipalities, is harder to obtain and has a much longer lag.

c. The budget is published in the official gazette and is available on the internet. The government provides detailed summaries of the budget and budget amendments to the media.

d. 3. The federal government has an excellent system of budget reporting, and is assisting subnational governments improve their budget reporting systems. Actual budget expenditures typically are less than budgeted by congress.

e. Basic budget procedures are established in the 1988 Constitution. The 2000 Fiscal Responsibility Law establishes stringent budget guidelines and reporting requirements. The 2000 Fiscal Crime Law establishes criminal penalties for public officials that fail to comply with specific budget requirements.

f. 3. There are detailed laws/regulations establishing fiscal transparency.

g. 3. The Fiscal Responsibility Law and Fiscal Crime Law entered into force in 2000. Public officials are notionally subject to criminal penalties if they fail to comply with the law. The vast majority of public officials appear to take the Fiscal Responsibility Law seriously, although the criminal penalties of the Fiscal Crime Law have yet to be invoked.

h. 3. Distribution of tax powers and expenditure responsibilities is clear and supported by open and stable intergovernmental transfer mechanisms.

i. Yes, there are independent auditing bodies at the federal and state level, although the commissioners are appointed by the executive.

j. 3. Publicly owned entities are under clear control of the central government budget process. A possible weak point is lending by government-owned banks, but the banks are subject to same regulatory requirements as private banks, and subsidized lending is supposed to be covered by transfers from the government.

k. 3. Privatization processes are fully transparent and comprehensively reported.

l. 3. Budget revenue and expenditure estimates are very reliable, although a recent increase in inflation has added a small degree of uncertainty to revenue forecasts.

m. Since 1998 the Government of Brazil has been committed to fiscal discipline and transparency, first under the Cardoso administration and now under the Lula administration. The Fiscal Responsibility Law, passed in 2000, also imposes stringent requirements on state and municipal governments, most of whom take these responsibilities seriously. Fiscal responsibility at the subnational level is reinforced by debt rescheduling agreements that most states and many municipalities have with the federal government. These agreements establish certain budget requirements and give the federal government the right to withhold transfers to states and municipalities that are in arrears on debt payments.

n. The U.S. government does not have any programs in

Brazil that promote accurate disclosure of revenues and expenditures. The IMF and World Bank have worked with the federal and subfederal governments on improving fiscal management.

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